

# **A Guide for NONPROFIT ORGANIZATIONS**

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## **Cost Principles and Procedures For Establishing Indirect Cost and Other Rates For Grants and Contracts with the Department of Health and Human Services**

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U.S. Department of  
Health and Human Services  
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Cost Principles and Procedures  
for  
Establishing Indirect Cost and Other Rates for  
Grants and Contracts with the  
Department of Health and Human Services

**A GUIDE FOR NONPROFIT ORGANIZATION**

This brochure is intended for use by nonprofit organizations (other than educational institutions, hospitals, and State and local government agencies) which are subject to cost principles contained in the Office of Management and Budget Circular A-122. It is one of a series of brochures which incorporate a set of cost principles, sample proposal formats, and management guides, each appropriate to a particular type of organization.

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## TABLE OF CONTENTS

	Page No.
PREFACE	
SECTION I.---	
INDIRECT COSTS---GENERAL POLICIES AND PROCEDURES.....	1
NATURE OF INDIRECT COSTS.....	1
INDIRECT COST RATES.....	1
Provisional Rate.....	1
Final Rate.....	1
Predetermined Rate.....	1
Fixed Rate With Carry-Forward Provision.....	1
Selection of Type of Rate.....	2
SUBMISSION OF INDIRECT COST PROPOSALS.....	2
General Requirement.....	2
Where to Submit Proposals.....	2
Due Dates and Coverage of Proposals.....	2
No Previous Rate.....	2
Previously Established Rates.....	3
Extension of Due Dates.....	3
Supporting Documentation.....	3
APPROVAL OF RATES.....	3
DISPUTES.....	4
AWARD AND SETTLEMENT OF INDIRECT COSTS.....	4
Applying Indirect Cost Rates.....	4
Award of Indirect Costs.....	4
Settlement of Indirect Costs.....	5
Failure to Submit Timely Proposals.....	5
No Previous Indirect Cost Rate With Government.....	6
LIMITATIONS ON INDIRECT COST REIMBURSEMENT.....	6
APPROVAL OF INDIRECT COST RATES WITH SUBGRANTEES AND SUBCONTRACTORS.....	6
SECTION II.---	
GUIDELINES FOR PREPARING INDIRECT COST PROPOSALS.....	8
Simplified Allocation Method.....	8
Multiple Allocation Base Method.....	8
Direct Allocation Method.....	9
Special Indirect Cost Rates.....	10
Donated Services, Goods and Space.....	10
SECTION III.---	
FRINGE BENEFITS AND SPECIALIZED SERVICE FACILITIES.....	11
Fringe Benefits.....	11
Specialized Service Facilities.....	11
SECTION IV.--	
SUPPLEMENTAL PROVISIONS TO CIRCULAR A-122.....	12
APPENDICES:	
APPENDIX	
A---OMB Circular No. A-122, Cost Principles for Non Profit Organizations.....	13
B--- Locations of Divisions of Cost Allocation.....	14
C--- Sample Indirect Cost Proposal Format---Simplified Allocation Method.....	16
D--- Sample Indirect Cost Proposal Format---Multiple Allocation Base Method.....	22
E---Sample Indirect Cost Proposal Format---Direct Allocation Method.....	27
F---Guidelines for Establishing Fixed Rates With Carry-Forward Provisions.....	31
G---Sample Rate Agreement.....	37

## **A GUIDE FOR NONPROFIT ORGANIZATION**

### **Preface**

This brochure is published as a guide for nonprofit organizations, which are subject to the provisions of Circular A-122, to assist them in understanding the process of determining and reimbursing indirect costs under the Department's grant and contract programs.

Office of Management and Budget (OMB) Circular A-122 "Cost Principles for Nonprofit Organizations" defines a "nonprofit organization" as any corporation, trust, association, cooperative or other organization which (1) is operated primarily for scientific, educational, service, charitable, or similar purposes in the public interest; (2) is not organized primarily for profit; and (3) uses its net proceeds to maintain, improve and /or expand its operations. For purposes of the Circular and this Guide, the term "nonprofit organization" excludes:

- Colleges and universities,
- Hospitals,
- State, local, and federally recognized Indian tribal governments, and
- Nonprofit organizations listed in Attachment C of OMB Circular A-122 (Appendix A of this Guide).  
Note---The principles to be used in determining allowable costs of activities conducted by nonprofit organizations listed in Attachment C are contained in Subpart 1-15.2 of the Federal Procurement Regulations (41 CFR 1.15.2) except that the costs of independent research and development, including its proportionate share of indirect costs, are unallowable.

This brochure includes Circular A-122, information on policies and procedures for establishing indirect cost rates and reimbursing indirect costs, illustrations of indirect cost proposals, and other information useful to nonprofit organizations in this and related areas.

Section I provides general information on the nature of indirect costs and indirect cost rates, and describes the process of establishing the rates and reimbursing indirect costs.

Section II provides guidelines for preparing indirect cost proposals.

Section III provides information on fringe benefits and specialized service facilities.

Section IV provides information on the treatment of Bid and Proposal costs and Independent Research and Development.

Appendices A through G include the cost principles applicable to grants, contracts and other agreements with nonprofit organizations (OMB Circular A-122), illustrations of indirect cost proposals, and other materials related to establishing the rates and reimbursing indirect costs.

The contents of this brochure reflect Government-wide principles and summarize HHS policies and procedures as of the date of issuance. However, organizations should be familiar with, and should keep up-to-date on, official grant and contract policy changes issued by OMB, GSA and HHS.

## SECTION I-INDIRECT COSTS-GENERAL POLICIES AND PROCEDURES

### NATURE OF INDIRECT COSTS

Indirect costs are costs that are incurred for common or joint objectives, and therefore cannot be readily and specifically identified with a particular project or activity. The costs of operating and maintaining facilities, equipment, and grounds; depreciation or use allowances; administrative salaries and supplies are typical examples of the type of costs which are usually considered as indirect costs at nonprofit organizations.

In theory, these types of costs might be charged directly. This approach, however, is usually impractical. They are therefore grouped into a common pool(s) and distributed to benefiting activities by a cost allocation process. The end product of this allocation is an indirect cost rate(s) which is applied to individual projects supported by grants, contracts and other agreements with the Federal Government (collectively referred to as "awards") to determine the amount of indirect costs applicable to each project.

Indirect costs are reimbursed based on an organization's approved indirect cost rate(s), subject to statutory or administrative limitations, as part of the total costs of individual awards.

### INDIRECT COST RATES

The indirect cost rate is a ratio, expressed as a percentage, of the indirect costs to a direct cost "base". The direct cost base is usually either total direct costs (exclusive of capital expenditures and other distorting items), or direct salaries and wages. The base selected must produce an equitable distribution of indirect costs. Other bases may be used, but they too must produce an equitable distribution of indirect costs.

Indirect cost rates are established by agreement between the organization and a "cognizant" Federal agency that acts on behalf of all Federal agencies in approving rates with the organization. The types of rates established through this process are described below.

#### Provisional Rate

A provisional indirect cost rate is a temporary rate established for a given period of time to permit funding and reporting of indirect costs pending establishment of a final rate (or other permanent rate) for that period. When a permanent rate is

established, the indirect costs claimed by using the provisional rate are adjusted to reflect the indirect costs based on the permanent rate.

#### Final Rate

A final indirect cost rate is a permanent rate established after the organization's actual costs for a specific period (usually its fiscal year) are known and the amount of allowable indirect costs applicable to Federal awards have been determined. This type of rate is not subject to adjustment. Final rates are used to adjust indirect costs initially claimed based on the provisional rates in grant expenditure reports and contract public vouchers.

#### Predetermined Rate

A predetermined indirect cost rate is a permanent rate established for a specific future period (usually one fiscal year) based on an estimate of the costs for that period. Except under very unusual circumstances, this type of rate is not subject to adjustment. Predetermined rates are established when there is reasonable assurance, based on experience and a reliable estimate of the organization's costs, that the predetermined rate will approximate the organization's actual rate.

Note— Predetermined rates can be used only when an organization conducts activities solely under grants. It cannot be used if an organization performs work only on contracts or performs under both grants and contracts.

#### Fixed Rate With Carry-Forward Provision

A fixed rate with carry-forward provision is a permanent rate that has the same characteristics as a predetermined rate. However, unlike a predetermined rate, the difference between the estimated costs used to establish the fixed rate and the actual costs of the fiscal year covered by the rate is "carried forward" as an adjustment to the rate computation of a future year(s). The fixed rate should be based on accurate estimates for the year involved so as to avoid unduly large carry forward adjustments. During a period when a fixed rate is in use, if knowledge becomes available to the organization or cognizant agency that an event(s) has occurred which materially alters the fixed rate, the fixed rate should be revised to reflect the new circumstances.

The carry-forward adjustment cannot be made for the fiscal year immediately following the year covered by the fixed rate, the fixed rate should be revised to reflect the new circumstances.

The carry-forward adjustment cannot be made for the fiscal year immediately following the year covered by the fixed rate because the fixed rate for the following year will have been established before the amount of the carry-forward adjustment is known. Consequently, the adjustment will generally be made in the second or third year. The carry-forward procedure is discussed in Appendix F. Appendix F also includes a description of the situations where fixed rates should not be used.

### **Selection of Type of Rate**

Organizations are encouraged to use either predetermined rates or fixed rates with carry-forward provisions where feasible and permissible under law and regulation. These rates permit a more timely closing of completed awards and generally eliminate the necessity of making retroactive adjustments on individual awards as would be the case when provisional and the final rates are used. The type of rate used is subject to the approval process and based on mutual agreement between the organization and cognizant Federal agency.

## **SUBMISSION OF INDIRECT COST PROPOSALS**

### **General Requirement**

An indirect cost proposal documents how the organization develops its indirect cost rate(s) and is the basis for the cognizant agency's approval of the rate(s). All claims for indirect costs must be supported by the timely submission of an indirect cost proposal. Organizations that do not submit timely indirect costs proposals risk losing their claims for indirect costs as described in the subsection titled "AWARD AND SETTLEMENT OF INDIRECT COSTS". Guidelines on the preparation of indirect costs are provided in Section II.

### **Where to Submit Proposals**

Under Office of Management and Budget Circular A-122 each organization is assigned to a single Federal agency which acts on behalf of all Federal agencies in approving indirect cost rates and other rates with the organization. The agency assigned this responsibility is referred to as the "cognizant"

agency. Unless different arrangements are agreed to by the agencies concerned, the Federal agency with the largest dollar value of awards with an organization will be designated as the cognizant agency. Once an agency is assigned cognizance for a particular non-profit organization, the assignment will not be changed unless there is a major long-term shift in the dollar volume of Federal awards to the organization. All concerned Federal agencies are given an opportunity to participate in the rate approval process, and after a rate has been agreed upon, it is accepted by all Federal agencies. Generally, the agency designated as the cognizant agency for indirect cost rate approvals will also be responsible for resolving audit findings at the organization.

If cognizance of the rate approval process for an organization is assigned to HHS, the organization's indirect cost proposals must be submitted to the Department's Regional Division of Cost Allocation (DCA) responsible for the geographical area in which the organization is located. The address and area covered by each DCA is shown in Appendix B.

If an organization is assigned to a Federal Agency other than HHS, its indirect cost proposals should be submitted to that agency in accordance with the instructions of the agency. It is not necessary to submit a copy of the proposal to DCA unless it is specifically requested.

Occasionally, cognizance for an organization may be transferred from one Federal agency to another. When this occurs, the organization will be notified by the "new" cognizant agency.

### **Due Dates and Coverage Proposals**

The due dates for submission of indirect cost proposals to the DCA (when HHS is the cognizant agency) depend on whether an organization has previously established an indirect cost rate with the Government.

#### **No Previous Rate**

If an organization has not previously established an indirect cost rate with the Government, it should submit its initial indirect cost proposal to the DCA immediately after it is notified that an award providing indirect cost reimbursement will be made. If possible, the proposal should be submitted before the award is made, and in the case of grants, must be submitted no later than three months after the effective date of the grant (As used in this Guide, the

term “Grant” also includes cooperative agreements).

The proposal will be used to establish a rate to permit funding of indirect costs under the award. It should normally be based on the organization’s actual costs for its most recently completed fiscal year. However, if the organization anticipates a change in its operations that would significantly increase or decrease the rate for the fiscal year(s) in which the award will be performed, the proposal must be based on projected costs for that year(s).

When the proposal is submitted, it will be processed on a priority basis by DCA. Upon request, the DCA will provide technical advice to the organization on the preparation of the proposal. If a rate cannot be established before the award is made, indirect costs will be funded in accordance with the procedures described in the subsection titled “AWARD AND SETTLEMENT OF INDIRECT COSTS—Organizations Without Currently Effective Indirect Cost Rates”.

#### **Previously Established Rate**

Organizations that have previously established indirect cost rates with the Government must submit a new indirect cost proposal to the DCA within six months after the close of each fiscal year. The type of rate(s) included in the proposal and the fiscal year(s) on which the rate should be based will be governed by the specific circumstances involved:

- a. If a provisional rate(s) was previously established for the most recently completed fiscal year, the proposal must include (1) a final rate(s) for the completed year based on the actual costs for that year, and (2) fixed, predetermined or provisional rates for the next two years. If the rates are expected to remain relatively stable, the rates for the following years should also be based on actual costs for the most recently completed year. However, if the organization anticipates a change in its operations that would significantly increase or decrease the rate for one or both of these years, the rate(s) must be based on projected costs; or
- b. If a fixed or predetermined rate(s) was previously established, the proposal must include a fixed, predetermined or provisional rate(s) for the fiscal year immediately following the year covered

by the last Rate Agreement. The rate(s) should be based on actual costs of the most recently completed year, or if the organization anticipates a significant change in its operations, projected costs for the year covered by the rate(s)

#### **Extension of Due Dates**

Occasionally, extenuating circumstances may justify an extension of the due date for submission of a proposal. When a due date cannot be met, a formal request for an extension, stating the reasons, must be sent to the DCA prior to the due date. If the request is approved and the proposal is submitted in accordance with the conditions of approval, no penalty will be assessed.

#### **Supporting Documentation**

Each indirect cost proposal must be accompanied by, and be cross referenced and reconciled to, the organization’s independently audited financial statements which account for all activities during the fiscal year on which the proposal is based. If independently audited financial statements are not available, the organization should contact the DCA to determine what other financial documents will be acceptable to substantiate the amounts in the proposal. If a rate in the proposal is based on projected costs for a future year, the rate computation must be crossed referenced and reconciled to the organization’s budget for that year. In these cases, the future year’s budget and the financial statements for the most recently completed fiscal year must be submitted with the proposal.

The information submitted with the proposal should also include the approximate amount of direct base costs incurred under Federal awards, the fringe benefit information described in Section III, and where applicable, the information on off site and other special rates described in the subsection on “SPECIAL INDIRECT COST RATES” in Section II

#### **APPROVAL OF RATES**

The DCA will approve an indirect cost rate(s) with the organization based on an evaluation of the organization’s indirect cost proposal. In some cases, the DCA may request an audit of the proposal before the rates are approved.

The approval will be formalized by a Rate Agreement signed by the DCA and an authorized of the organization. Each Agreement will include:

- The approved rate(s) and information directly related to use of the rate(s) (e.g., type of rate, effective period, direct cost base);
- The treatment of fringe benefits as either direct or indirect costs;
- General terms and conditions of the Agreement;
- Special terms and conditions of the Agreement (if any); and
- Additional information (if necessary) that may be needed by the users of the Agreement.

The Rate Agreement is reproduced and distributed to the personnel within HHS and other Federal agencies responsible for the award and settlement of grants and contracts. A sample Rate Agreement form is shown in Appendix G.

If the organization is assigned to a cognizant agency other than HHS, that agency will send a copy of its agreement with the organization to the DCA, and the rates will be recognized by HHS.

## DISPUTES

On rare occasions, the DCA and an organization may not be able to reach agreement on an acceptable indirect cost rate (or other rates described in Section III) for use on awards. When this occurs, the DCA will make a unilateral determination of the rate(s) considered acceptable by the Department and will notify the organization of the determination. The DCA will also advise the organization of its right to appeal the determination and the appeal procedures to follow. The organization may appeal the determination under either the Department's Grant Appeals Regulations (45CFR, Parts 75 and 16) or the "disputes" provisions of affected contracts.

## AWARD AND SETTLEMENT OF INDIRECT COSTS

### Applying Indirect Cost Rates

The amount of indirect costs applicable to each award is determined by multiplying the appropriate indirect cost rate(s) by the direct cost base of the award.

In applying indirect cost rates to individual awards, the rate covering the period in which the direct cost base is actually incurred must be applied to those costs. Thus, if an award is performed in more than one organizational fiscal year, the indirect cost rate applicable to each fiscal year must be applied to the respective direct cost base incurred in those years. For example, assume that rates of 35% for the fiscal year ending June 30, 1981 and 30% for the fiscal year ending June 30, 1982 have been approved; and that the 12 month budget period of an award begins on January 1, 1981. The indirect costs would be computed as follows:

	Fiscal Year Ending		
	6/30/81	6/30/82	
Direct Cost Base	\$30,000	\$20,000	\$50,000
Indirect Cost Rates	X 35%	X 30%	
Indirect Costs	\$10,500	\$6,000	\$16,000

A single rate may be used for purposes of awarding indirect costs when the budget period does not coincide with the organization's fiscal year, if the amount based on a single rate reasonably approximates the amount that would have been awarded had the two rates been used. In these cases, the rate covering the earlier fiscal year will normally be used. Final settlement, however, will be computed by using the rates established for the two (or more) fiscal years in which the direct cost base is incurred.

### Award of Indirect Costs

Subject to any statutory or administrative limitations, indirect costs will be awarded using the approved indirect cost rate(s) applicable to the budget period of the award. Organizations seeking indirect cost reimbursement should show the requested amount and appropriate rate and base in their contract proposals and grant applications unless directed otherwise by the awarding agency. The applications and proposals should also indicate whether the project will be conducted on-site or off-site. The definition of "off-site" and the treatment of partially off-site projects will be agreed upon as part of the approval of the organization's indirect cost rates and will be included in the Rate Agreement. The handling of off-site activities must be consistent with the Rate Agreement.

Grant applications and contract proposals are frequently submitted far in advance of the date of an award. As a result, the indirect cost rate shown in the application or proposal may be outdated when the award is made. In these cases, the HHS



awarding agency will use the most current rate to fund indirect costs in the award.

When indirect costs are awarded on the basis of a provisional rate, adjustments to the amount awarded will not usually be made during the award's budget period. However, if there is a major change in the provisional during the budget period and this change results in a significant under or over-funding of indirect costs, the award may be amended to increase or decrease the amount awarded. This determination will take into account the financial position of the organization as well as the administrative effort involved in amending the awards. Generally, these amendments will not be made unless the total impact on all HHS awards is at least \$100,000 or 20% of the total costs of the awards.

### **Settlement of Indirect Costs**

Grant expenditure reports and contract public vouchers (collectively referred to as "financial reports") must reflect the appropriate amount of indirect costs based on the most current rate(s) applicable to the period involved. If a provisional rate is used, the amount claimed must be adjusted when a final rate applicable to the period is established. These adjustments must be initiated by the nonprofit organization.

Generally, adjustments are required only when a provisional rate is used to initially claim indirect costs on financial reports and the provisional rate is later replaced by a final rate. However, occasionally, a provisional rate is later replaced by a fixed or predetermined rate. This would occur when a fixed or predetermined rate applicable to a given fiscal year is established sometime after the beginning of the year and replaces a provisional rate previously in effect for the earlier part of the year. In these cases, if the provisional rate was used to claim indirect costs for the portion of the year before the fixed or predetermined rate was established, the amount claimed must be adjusted to reflect the amount based on the fixed or predetermined rate.

Adjustments to indirect costs claimed on HHS grants must be made by submitting an annual "Summary Report of Expenditures Adjustment Sheet" showing the adjustment to each grant. (Submission of a revised expenditure report for each grant is not required.) If the organization receives grants from more than one HHS awarding agency (e.g., the National Institutes of Health, the Office of Human Development Services), a separate adjustment

sheet is required for each agency. A suggested adjustment sheet format, along with specific instructions on its preparation and submission can be obtained from the office noted below. All adjustment sheets, regardless of the HHS awarding agency(ies) involved, should be sent to this office:

Accounting and Indirect Cost Section  
Division of Financial Management  
National Institutes of Health  
Building 31, Room B1B05  
Bethesda, Maryland 20205

If upward adjustments result in the need for funds in excess of the total amount awarded for a grant budget period, the additional funds will be provided to the organization if they are available from the same Federal appropriation used to fund the grant budget period.

Adjustments to indirect costs claimed on HHS contracts must be made in accordance with the contract provisions.

### **Organizations Without Currently Effective Indirect Cost Rates**

#### **Failure to Submit Timely Proposals**

If an organization does not submit a timely indirect cost proposal, it will be considered as not having a currently effective indirect cost rate. In the absence of this rate, future grant awards made by the Department will not provide for indirect costs. If the organization subsequently establishes a rate, the awarding agency may amend the award to provide an appropriate amount for indirect costs, if the amendment can be made within the same Federal fiscal year in which the award was made. This amount, however, will be limited to the indirect costs applicable to the period beginning on the first day of the month in which the proposal was submitted.

When a grant is awarded without funds for indirect costs, these costs will not be allowed on the financial report(s) submitted under the grant. If the grant was amended to provide funds for indirect costs, the indirect costs allowed on the financial report (and the Summary Report of Expenditures Adjustment Sheet, if required) will be computed on the same basis as was used to compute the amount provided in the amended award. For example, if funds for 75% of indirect costs were provided in the amended award, only 75% of indirect costs will be allowed on the financial report and Summary Report of Expenditures Adjustment Sheet.

Failure to submit a timely indirect cost proposal may also result in the disallowance of indirect costs previously reimbursed on the basis of a provisional indirect cost rate. These disallowances will be made if the organization does not submit a timely indirect cost proposal to establish a permanent rate (final, fixed, or predetermined) for the period involved, and after being notified that a proposal must be submitted to substantiate the claim, still does not submit the proposal.

#### **No Previous Indirect Cost Rates With Government**

In some cases, a currently effective indirect cost rate may not be available at the time a grant is awarded because the organization has never established a rate with the Government and is unable to establish its initial rate prior to the date of the award. In these cases, a provisional amount equal to one-half of the indirect costs requested by the organization, up to 10% of direct salaries and wages, will be included in the grant.

If the organization later submits a timely indirect cost proposal, the amount provided to the organization will be adjusted. If the organization does not establish an indirect cost rate prior to submission of the grant expenditures report, its claim for indirect costs reimbursement will not be allowed.

If it is not possible to establish an initial indirect cost rate prior to the award of a contract, the organization and the contracting officer may agree to use an estimated "billing" rate to funds and claim indirect costs under the contract, pending formal approval of a rate by the DCA.

### **LIMITATIONS ON INDIRECT COST REIMBURSEMENT**

Indirect cost payments may be subject to legal or administrative limitations. Where limitations exist, indirect costs will be awarded based on the approved indirect cost rate(s) up to the limitation.

Indirect costs are not reimbursed on construction grants, grants to individuals, or grants to organizations located outside the territorial limits of the United States. Indirect costs are also not reimbursed on scholarships, fellowships and similar awards where Federal financing is exclusively in the form of fixed amounts or the published tuition rates and fees of an organization.

Indirect cost reimbursement on HHS training grants

(but not training contracts) is limited to the lesser of the organization's actual indirect costs allocable to the grant or 8% of total direct costs. The specific direct cost base used in applying the 8% is prescribed in policies established by the Department's awarding agencies. A training grant is defined as a grant which provides Federal financing on a cost reimbursement basis for the cost of training or other educational services. Examples of the activities covered by training grants include training programs for selected participants (including research training), summer institutes, and the development and introduction of new or expanded courses.

The submission of an indirect cost proposal to support the 8% reimbursement rate on training grants is not normally required. However, the organization is required to have documentation available for audit which shows that its actual rate is at least 8%. If the organization has an approved indirect cost rate with the Government which is applicable to training grants and the rate is based on total direct costs (excluding capital expenditures and other distorting items), this rate will meet the documentation requirements. If a rate applicable to training grants based on total direct cost (excluding capital expenditures and other distorting items) has not been approved, the organization must compute an approximate rate, and retain the computation for audit. If this computation indicates that the rate is less than 8%, a formal indirect cost proposal must be submitted to the DCA.

If a provision of a training grant includes a cost sharing or matching requirement, actual indirect costs in excess of the 8% reimbursement limitation may be used to meet the cost sharing or matching requirement.

### **APPROVAL OF INDIRECT COST RATES WITH SUBGRANTEES AND SUBCONTRACTORS**

As a general rule, prime contractors and grantees are responsible for approving indirect cost rates, where necessary, with sub grantees and subcontractors under grant and contract awards. These approvals must be based on the Federal cost principles applicable to the organization receiving the sub grant or subcontract (collectively referred to as "subawards"). The procedures followed by the grantee or contractor in evaluating the subawardee's indirect cost proposal and approving the rate should be documented and are subject to review by the

Department. Upon request, the DCA will provide technical advice to the grantee/contractor in conducting the evaluation and rate approval.

Prime contractors and grantees are not required to approve indirect cost rates for subawards if any of the following conditions exist:

- The subaward does not provide reimbursement for indirect costs;
- The subaward is awarded to an organization which receives approval of its indirect cost rates or research patient care rates directly from the Government. In these situations, the rates approved by the Government will apply to all federally supported activities, including those conducted under subawards; or
- The subaward is a subgrant for training purposes and is awarded to a college or university, hospital or other nonprofit organization (other than a State, local, or federally recognized Indian tribal government). In these cases, the training subgrant is subject to the same rules as those applicable to the training grants described in the subsection titled “LIMITATIONS ON INDIRECT COST REIMBURSEMENT”. (Training subgrants awarded to State, local, or federally recognized Indian tribal governments are not subject to the indirect cost limitation described in the subsection “LIMITATIONS ON INDIRECT COST REIMBURSEMENT.”)

## SECTION II---GUIDELINES FOR PREPARING INDIRECT COST PROPOSALS

The principles for determining costs under awards performed by nonprofit organizations, including principles for computing indirect cost rates, are prescribed in the Office of Management and Budget Circular A-122. This Circular is reproduced in Appendix A. See Section IV for treatment of Bid and Proposal Costs and Independent Research and Development. These cost elements are not covered in Circular A-122.

Because of the diverse characteristics of nonprofit organizations, Circular A-122 provides three methods to compute indirect cost rates---a simplified allocation method, a multiple allocation base method, and a direct allocation method. In some instances, it may be necessary to establish special indirect cost rates for certain activities conducted by the organization. The circumstances which require the development of these rates are discussed in the subsection titled "SPECIAL INDIRECT COST RATES".

### SIMPLIFIED ALLOCATION METHOD

The simplified allocation method should be used when all of an organization's major functions benefit from its indirect costs to approximately the same degree. This method should also be used when an organization has only one major function encompassing a number of individual projects or activities. In addition, organizations with a relatively small dollar amount of Federal awards may use this method provided the results are reasonable and equitable to the Government.

Costs from the organization's certified financial statements are classified as costs of either direct or indirect functions or activities. After making adjustments for unallowable costs, a single rate is computed by dividing the indirect costs by the costs of direct functions or activities. The process of developing indirect cost rates under the simplified allocation method is illustrated in Appendix C and summarized below.

1. Segregate all of the institution's activities (from both restricted and unrestricted funding sources) and their costs as either direct activities or indirect activities. Costs of activities performed primarily as a service to members, clients or the general public, when significant and necessary to

the organization's mission, are direct costs (regardless of whether these activities are allowable or unallowable). Unallowable activities cited in Attachment A, paragraphs B.3 and 4 of the Circular (e.g. fund raising) must be classified as direct costs.

2. Eliminate capital expenditures and unallowable costs identified in Attachment B of Circular A-122. Capital expenditures include expenditures for land, buildings, equipment, and Improvements which materially increase their value or useful life (regardless of whether improvements were made by outside contractors or the organization's staff). Examples of unallowable costs include interest expense, entertainment expense, bad debts, fines and penalties, and losses on Federal or non-Federal awards. However, "unallowable activities" (Attachment A, paragraphs B.3 and 4 of the Circular) should not be eliminated, but should be identified as direct costs. Appropriate adjustments for any "applicable credits" should be made in accordance with Attachment A, paragraph A.5.
3. Compute the indirect cost rate by dividing the adjusted indirect costs by the rate base. The rate base may be total direct costs (excluding capital expenditures and other distorting items, such as major subcontracts or sub grants), direct salaries and wages or other base which results in an equitable distribution.

### MULTIPLE ALLOCATION BASE METHOD

The multiple allocation base method should be used when an organization has several major functions which benefit from its indirect costs in varying degrees. Indirect costs are accumulated into separate cost groupings, such as a grouping for general and administrative expenses, and a grouping for depreciation and other occupancy expenses. Each grouping should contain a pool of expenses that are of like character in terms of the functions they benefit and the allocation base which best measures the relative benefits provided to each function. Each grouping is then allocated individually to the benefiting functions by means of a

base which best measures the relative benefits to each function. The number of separate groupings should be held within practical limits, taking into consideration the materiality of the amounts involved and the degree of precision desired. Indirect costs allocated to each function are then distributed to individual awards and other direct activities included in that function by means of an indirect cost rate(s). The process of developing indirect cost rates under the multiple allocation base method is illustrated in Appendix D and summarized below.

1. Segregate all of the organization's activities (from both restricted and unrestricted funding sources) and their costs as either direct activities or indirect activities. The costs of direct activities would then be identified with each of the organization's major functions. Costs of activities performed primarily as a service to members, clients or the general public, when significant and necessary to the organization's mission, are direct costs (regardless of whether these activities are allowable or unallowable). Unallowable activities cited in Attachment A, paragraphs B.3 and 4 of the Circular (e.g. fund raising) must be classified as direct costs.
2. Eliminate capital expenditures and unallowable costs identified in Attachment B of Circular A-122. Capital expenditures include expenditures for land, buildings, equipment and improvements which materially increase their value or useful life (regardless of whether the improvements were made by outside contractors or the organization's staff). Examples of unallowable costs include interest expense, entertainment expense, bad debts, fines and penalties, and losses on Federal or non-Federal awards. However, "unallowable activities" (Attachment A, paragraphs B.3 and 4 of the Circular) should not be eliminated, but should be identified and direct costs. Appropriate adjustments for any "applicable credits" should be made in accordance with Attachment A, paragraph A.5.
3. Further segregate the indirect activities into functional costs groupings (pools) that benefit the organization's various direct activities in significantly different proportions.
4. Select an appropriate distribution base for each pool of indirect costs, then distribute each indirect cost pool to the activities represented in its distribution base.

5. Compute the indirect cost rate by accumulating the indirect costs distributed to each major activity and dividing those costs by a rate base. The rate base may be total direct costs (excluding capital expenditures and other distorting items, such as major subcontracts or subgrants), direct salaries and wages or other base which results in an equitable distribution.

## DIRECT ALLOCATION METHOD

Many nonprofit organizations, particularly voluntary health and welfare agencies, elect to charge their programs directly for all costs except those identified as "supporting services" costs. These organizations usually separate their costs into two basic categories:

- i. "Program Services"---these include direct functions such as community service activities, research, education and training; and
- ii. "Supporting Services"---these include general administration and general expenses, and fund raising expenses. These two expense groups are usually separately disclosed in the financial statements.

Many joint costs, such as depreciation, operation and maintenance of facilities, and telephone expenses, are prorated individually to each activity within program services (including projects performed under Federal awards) and to each activity within supporting services. Each joint cost would be prorated by using the most appropriate distribution base. The direct allocation method is acceptable provided each joint cost is prorated on a distribution base which is (i) established in accordance with reasonable and consistent applied criteria, (ii) adequately supported by current data of the organization and, (iii) based on benefits received.

The general administration and general expenses are allocated to Federal awards and other activities within program services and to fund raising by an indirect cost rate(s). The process of developing indirect cost rates under the direct allocation method is illustrated in Appendix E and summarized below.

1. Eliminate capital expenditures and unallowable costs identified in Attachment

B of Circular A-122. See step 2 under the simplified allocation method for additional data.

2. Compute the indirect cost rate by dividing the allowable general administration and general expenses by the rate base. The rate base would consist of program services and fund raising costs. See step 3 of the simplified allocation method for data on the direct cost items which are included in the rate base.

## **SPECIAL INDIRECT COST RATES**

The development of a single indirect cost rate applicable to all direct activities conducted by an organization (or to each major function if the multiple allocation base method is used) is usually sufficient to achieve an equitable allocation of indirect costs. In some instances, however, an activity may be conducted in a physical or administrative environment which appears to generate a significantly different level of indirect costs than the other activities conducted by the organization. Provision should be made for a separate indirect cost pool applicable to such work. The use of a special or separate rate would be appropriate where it is significantly different from the rate applicable to other activities, and where the rate applies to a material volume of award.

The most common situations that may require the development of special rates are (a) those involving projects conducted in "off-site" facilities, (b) projects or programs conducted in facilities that have been constructed and equipped entirely or primarily by the Government (e.g. primate centers, special research laboratories), and (c) those that are substantially more autonomous than the organization's regular activities and are charged directly for certain administrative and supporting services that are equivalent to the services charged indirectly to other activities (e.g. special research laboratories, community health projects not administered by the organization's regular administrative structure). In developing indirect cost rates, organizations should review their operations to determine if special or separate rates are needed, so that they may be developed during the regular rate computation process.

Organizations should submit the following information with an indirect cost proposal:

- a. If the proposal includes an off-site rate,

the proposal should be accompanied by (a) a definition of "off-site" in terms of ownership of the facilities in which the off-site projects are conducted, geographical location, or distance from the main facility, (b) the treatment of partially off-site projects and (c) a listing of specific off-site locations (unless the locations are frequently changed). The definition of "off-site" and the treatment of partially off-site projects will be agreed upon along with the organization's indirect cost rate and will be included in the Rate Agreement; or

- b. If the proposal includes a composite rate covering activities conducted at several different locations, the proposal should be accompanied by a listing of the locations. If the use of the composite rate is accepted by the DCA, the locations covered by the rate will be listed in the Rate Agreement.

## **DONATED SERVICES, GOODS AND SPACE**

The value of donated services, goods, and space furnished to an organization is not allowable as a reimbursable direct or indirect cost. However, these donations may be used to meet cost sharing or matching requirements. There is one exception, depreciation or use allowances on donated buildings and equipment are reimbursable as indirect costs.

The value of donated services utilized in the performance of a direct cost activity must be considered in the determination of the organization's indirect cost rate(s) and must be allocated to a proportionate share of applicable indirect costs, when the services are supported by a significant amount of indirect costs incurred by the organization.

Where donated services are utilized directly in the conduct of a project supported by an award, the indirect costs allocated to the services may, at the awarding agency's option, be reimbursed under the project.

The direct costs of an activity performed by an organization primarily for the benefit of the Federal Government at the request of the Federal agency or the Congress and without compensation (e.g. the study of a national policy issue) may be excluded from the direct cost base.

## SECTION III---FRINGE BENEFITS AND SPECIALIZED SERVICE FACILITIES

### FRINGE BENEFITS

Organizations generally provide a variety of fringe benefits to their employees in the form of paid vacations, holidays and sick leave, health and life insurance, contributions to social security and unemployment insurance, pension plans, and the like. The costs of these benefits are allowable charges to Federal awards if the benefits are granted in accordance with established, consistently applied policies of the organization, and if the costs are reasonable and are distributed to the organization's activities on an equitable basis. Additional requirements concerning the allowability of pension costs (including funding requirements) are set out in paragraph 6.g of Attachment B of Circular A-122.

Fringe benefit costs may be treated as either direct or indirect costs. If the costs are treated as direct costs, they may be specifically identified to each employee and distributed on the same basis as the individual's salary or wage, or they may be allocated based on a fringe benefit rate(s). Organizations are not required to treat all fringe benefit costs in the same manner, provided that the treatment is consistent for each type of benefit (e.g., pension costs). When fringe benefits are allocated, separate fringe benefit rates must be established for different groups of employees (e.g. upper echelon executives, hourly employees) if the costs of benefits provided to each group vary significantly in relation to the salaries and wages of employees in each group.

The HHS Divisions of Cost Allocation (DCA) will review an organization's fringe benefit costs in conjunction with their evaluation of the organization's indirect cost proposal. If the organization uses a fringe benefit rate(s), the DCA will approve the rate(s) with the organization and include the results of the agreement in the organization's Rate Agreement. To permit a timely review (and where applicable, approval), the following information concerning the organization's fringe benefit costs should be submitted with the organization's indirect cost proposal:

- a. A listing of the fringe benefits provided to the organization's employees;
- b. A copy of the organization's fringe benefit policies;

- c. A description of the method(s) used to budget and charge fringe benefit costs to programs or activities (including Federal awards);
- d. The funding practices of a "defined benefit" pension plan along with the treatment of prior service costs and actuarial gains and losses; and
- e. If the organization uses a fringe benefit rate(s), a computation of the rate(s) reconciled and cross referenced to the organization's financial statements. This computation should be submitted if the organization uses a fringe benefit rate for both budgeting and charging purposes on Federal awards, or uses a rate for only budgeting purposes.

With the exception of the fringe benefit rate computation, this information needs to be submitted only once (unless otherwise requested by the DCA). However, if the information has changed, updated information must be submitted with the next indirect cost proposal. The fringe benefit rate computation should be submitted annually with the indirect cost proposal.

### SPECIALIZED SERVICE FACILITIES

Organizations frequently operate highly complex or specialized facilities which provide services to the organization's activities. These facilities (referred to as "specialized service facilities") include computer centers, wind tunnels and reactors; and may include other service operations, such as animal resource centers, depending on size and complexity of the operation. The services provided by the facilities are usually charged to users based on a rate schedule reflecting unit prices for each service (e.g., labor hours, machine time, lines printed, animals fed). Standards for determining and charging the costs of services to Federal awards, including a requirement that the cost of each service normally consists of its direct costs as well as its allocable share of indirect costs, are prescribed in Paragraph 45 of Attachment B of Circular A-122.

Organizations should be prepared to substantiate their charges for specialized service facilities, and, upon request, to provide information to the cognizant agency to permit an evaluation of a facility's charges and charging procedures. The specific information needed to conduct this evaluation will be requested by the cognizant agency on a case-by-case basis.

## **SECTION IV---SUPPLEMENTAL PROVISIONS TO CIRCULAR A-122**

The paragraphs in Circular A-122 dealing with Bid and Proposal Costs (Attachment B, paragraph 3) and Independent Research and Development (Attachment B, paragraph 17) are reserved. Until the Office of Management and Budget mandates a uniform Government-wide policy, each Federal agency is permitted to apply its own policy in these two areas. HHS has elected to continue its long standing policy for these costs. These provisions are included in the HHS Grants Administration Regulations at 45 CFR 74.174(b) and in the HHS Procurement Regulations at 41 CFR 3-16.950-315A.

### **BID AND PROPOSAL COSTS**

Bid and proposal costs are the immediate costs of preparing bids, proposals, and applications for potential Federal and non-Federal grants, contracts, and other agreements, including the development of scientific cost, and other data needed to support the bids, proposals and applications. Bid and proposal costs of the current accounting period are allowable as indirect costs; bid and proposal costs of past accounting periods are unallowable as costs of the current period. However, if the organization's established practice is to treat these costs by some other method, they may be accepted if they are found to be reasonable and equitable. Bid and proposal costs do not include independent research and development costs or preaward costs.

### **INDEPENDENT RESEARCH AND DEVELOPMENT**

Independent research and development is research and development that is not sponsored by Federal or non-Federal grants, contracts, or other agreements. Independent research and development shall be allocated its proportionate share of indirect costs on the same basis as the allocation of indirect costs to sponsored research and development. The costs of independent research and development, including its proportionate share of indirect costs, are unallowable.



## Appendix A

### OMB Circular A-122

#### Cost Principles for Nonprofit Organizations

The above circular can be found at the following website

[http://www.whitehouse.gov/omb/circulars/a122/a122\\_2004.pdf](http://www.whitehouse.gov/omb/circulars/a122/a122_2004.pdf)

## Appendix B

### Locations of Divisions of Cost Allocation

## Appendix B

### Department of Health and Human Services

Division of Cost Allocation (DCA)  
Regional Administrative Support Center

<http://rates.psc.gov/fms/dca/dcamgrs.html>

## Appendix C

### Sample Indirect Cost Proposal Format Simplified Allocation Method

This Appendix illustrates the development of indirect costs under the “Simplified Allocation Method” described in Section D.2 of Attachment A in Circular A-122

The Simplified Allocation Method should be used when all of an organization’s major functions benefit from its indirect costs to approximately the same degree. This method should also be used when an organization has only one major function encompassing a number of individual projects or activities. In addition, organizations with a relatively small amount of Federal awards may use this method provided the results are reasonable and equitable to the Government.

## Appendix C

### Sample Indirect Cost Proposal Format---Simplified Allocation Method

From Appendix C-1

	Total Expenditures (1)	Less Adjustments	Adjusted Direct Costs	Adjusted Indirect Costs
Functional Groupings				
Research	\$373,000	\$68,100	\$304,900	
Public Health	531,000	50,000	481,000	
Vocational Training	730,000	39,000	691,000	
Community Services	855,000	5,500	849,500	
Special Education	536,000	122,400	413,600	
General & Administrative Expense	975,000	133,000		\$842,000
Fund Raising	0	(67,000)	67,000	
Totals	<u>\$4,000,000</u>	<u>\$351,000</u>	<u>\$2,807,000</u>	<u>\$842,000</u>

	A	B
Composition of Rate Base		
Federal Training Grants	\$300,000 (a)	
Other Federal Awards	507,000 (b)	
Non-Federal Projects	<u>2,000,000</u>	
Totals	<u>\$2,807,000</u>	

(a) Reimbursable indirect cost is limited to 8%.

(b) Reimbursable indirect cost is based on rate(s) contained in the Rate Agreement subject to any statutory or administrative limitations.

#### COMPUTATION OF INDIRECT COST RATE

$$\frac{(B)}{(A)} = \frac{\$ 842,000}{\$2,807,000} = 30\%$$

The distribution base used in this example is total direct costs exclusive of capital expenditures and other distorting items, such as major subcontracts or subgrants. However, the organization may use direct salaries and wages or other base which results in equitable distribution of costs.

## Appendix C-1

### Sample Indirect Cost Proposal Format---Simplified Allocation Method

Total Expenditures								
Elements of Cost	Direct Cost					Indirect Cost	Total	Note
	Research	Public Health	Vocational Training	Community Services	Special Education	Fund Raising*	General & Admin.	
Salaries & Wages	\$200,000	\$360,000	\$550,000	\$700,000	\$290,000		\$500,000	\$2,600,000
Employee Benefits	41,000	85,000	82,500	101,000	43,500		115,000	468,000 2
Office & Equipment Rental							140,000	140,000
Repairs & maint.							62,000	62,000 3
Materials	34,000	9,000	38,300	12,000	27,700		9,000	130,000 4
Supplies, postage & reproduction							41,000	41,000
Telephone	4,900	2,000	6,200	1,500	2,400		10,000	27,000 5
Professional Service		75,000		10,000	47,000		15,000	147,000 4
Automobile Expenses							35,000	35,000
Alterations & Improvements	18,000		39,000		46,000			103,000 4
Subcontract	75,100		14,000	30,500	79,400			199,000 4
Depreciation							7,000	7,000
Other Expense							41,000	41,000
Totals	\$373,000	\$531,000	\$730,000	\$855,000	\$536,000		\$975,000	\$4,000,000 1
<b>Less Direct Cost Adjustments</b>								
Professional Services		\$50,000			\$22,000			\$72,000 6
Alterations & Improvements	\$18,000		\$39,000		46,000			103,000 6
Subcontracts	50,100			\$5,500	54,400			110,000 6
Totals	\$68,100	\$50,000	\$39,000	\$5,500	\$122,400			\$285,000
<b>Less Indirect Cost Adjustments</b>								
Office Rental							\$12,500	\$12,500 7
Printing and Reproduction							4,500	4,500 7
Materials and Supplies							9,000	9,000 7
Depreciation Expense							900	900 8
Automobile Expense							12,000	12,000 9
Public Information Service							7,000	7,000 10
Contingencies							4,000	4,000 10
Interest							15,000	15,000 10
Gain on Sale of Asset							1,100	1,100 11
Totals							\$66,000	\$66,000
<b>Reclassifications</b>								
Fund Raising						\$40,000	(\$40,000)	0 12
Public Relations						10,000	(10,000)	0 12
Maintenance of Membership rolls						17,000	(17,000)	0 12
Totals						\$67,000	(\$67,000)	0
<b>Adjusted Costs</b>	\$304,900	\$481,000	\$691,000	\$849,500	\$413,600	\$67,000	\$842,000	\$3,649,000

\* Includes the costs of activities that must be treated as direct costs in accordance with paragraphs B.3 and 4 in Attachment A of the Circular.

## SAMPLE INDIRECT COST PROPOSAL FORMAT-SIMPLIFIED ALLOCATION METHOD

1. These amounts are taken from the organization's independently audited financial statements for the year on which the proposal is based. Expenditures reflect the purpose for which costs shown under total expenditures were incurred. They may be identified from (i) the Statement of Functional Expenses which is frequently included with the financial statements, (ii) the accounting records maintained by the organization, or (iii) an analysis of the costs in relation to the operation of the organization.
2. Three fringe benefit rates have been established to recognize the significantly different levels of benefits provided to three classifications of employees: executive, salaried and wage. An example of this difference is pension costs. Pension costs in this example are treated in a significantly different manner for each type classification of employee.

-Executive-full pension coverage, non-contributory.

-Salaried-limited pension coverage, contributory.

-Wage-no pension coverage.

Reclassified fringe benefits are based on the following:

Classification of Employee:	Salary & Wages		Rate	Fringe Benefits	
	Direct	Indirect		Direct	Indirect
Executive	\$80,000	\$180,000	30%	\$24,000	\$54,000
Salaried	1,270,000	290,000	20%	254,000	58,000
Wage	750,000	30,000	10%	75,000	3,000
	<u>\$2,100,000</u>	<u>\$500,000</u>		<u>\$353,000</u>	<u>\$115,000</u>

In this illustration, the organization has elected to treat fringe benefits as direct costs. Therefore, fringe benefit costs (allocable to the salaries & wages charged directly to grants and contracts) are charged directly to individual federally-sponsored awards. Conversely, if the organization had elected to charge fringe benefits as indirect costs, then fringe benefits could not be charged as direct costs on Federal awards.

NOTE: The requirement for consistent treatment applies equally to other costs (such as telephone calls, postage, data processing, materials and supplies).

3. In this illustration, repairs and maintenance costs are classified as Indirect costs. However, an organization may charge these costs directly to benefiting activities (Including Federal awards) by use of specific identification (e.g., by work orders) procedures. Charges for specifically assigned services would be based on a uniform billing schedule designed to recover costs of the repair and maintenance operation. Minor variances between costs and charges may be transferred to "other expenses" and classified as indirect costs. If records are not maintained, the total amount (as In this Illustration) would be classified as indirect.
4. Specific Identification (e.g., requisitions, purchase orders) procedures are used as the basis for charging these costs to benefiting activities (including Federal awards).
5. The cost of long distance calls are charged directly to benefiting activities (including Federal awards). Costs of local calls and monthly service charges are classified as indirect costs.

6. These adjustments correct distortions in the distribution base in accordance with paragraph D.2.c. in Attachment A of the Circular. In this illustration, the amounts charged for professional services and subcontracts represent effort on a single project within each functional grouping. Without an adjustment, an excessive amount of indirect costs would be assigned to these cost elements. In this example, it is presumed that the organization and cognizant Federal agency have agreed that only the first \$25,000 of each professional service agreement and subcontract should be included in the distribution base. Alteration and improvement costs are capital expenditures which must be removed from the distribution base in accordance with paragraph D.2.c in Attachment A of the Circular.

NOTE—Only current expenditures should be considered in developing indirect cost rates. Therefore, capital expenditures (e.g. alteration and improvement costs) should be removed from the indirect cost pool. However, the organization may include depreciation or use allowance associated with those assets in accordance with paragraph 9 in Attachment B of the Circular.

7. These adjustments eliminate costs associated with an affiliate or activity otherwise not related to the conduct of the organization's operation. In this illustration, the organization rents space, provides printing and reproduction services and furnishes materials and supplies to an affiliate. Since the proposed indirect costs should only include those costs that are allocable to the organization's operations, the following adjustments need to be made to give recognition to costs not associated with those operations:

Used by Affiliate	
Office Rental	\$12,500 (a)
Printing and Reproduction	4,500 (b)
Material and Supplies	9,000 (b)
	<u>\$26,000</u>

- a. Represents cost for the space used by the affiliate. In this case, square feet used by the affiliate multiplied by the rental cost per square foot equals the affiliate's share of the organization's office rental costs. If it is impractical to determine the actual cost of the space used by the affiliate, income may be used as a surrogate provided there is no material inequity to the Government.
- b. Represents estimated costs for printing, reproduction, materials and supplies used by the affiliate. When actual costs cannot be identified, it can be assumed for expediency that the revenue approximates the costs to the extent that the charges are reasonable for the goods and services provided. Alternative procedures would be needed if the revenue was based on a token or nominal amount which had no relationship to the value of furnished goods or services.
8. This adjustment eliminates depreciation of assets donated or paid by the Federal Government (paragraph 9.c. in Attachment B of the Circular), and those facility costs not meeting the test for idle facilities in paragraph 16.b., Attachment B of Circular A-122.
9. This adjustment recognizes the effect of employee payments made for personal use of the organization's automobiles. In this illustration, the organization treated the \$12,000 collected from employees as miscellaneous income rather than a reduction of expenses.
10. These adjustments eliminate unallowable costs identified in Attachment B or the Circular from the indirect cost pool. Examples of unallowable costs include interest expense, entertainment expense, lobbying, bad debts or allowances for doubtful accounts, fines and penalties, losses on Federal or non-Federal projects, provisions for contingencies, and charitable contributions.
11. This adjustment recognizes the gain on the sale, retirement or other disposition of depreciable



assets in accordance with paragraph 35 in Attachment B of the Circular. The gain is based on the difference between the amount realized on the assets and their undepreciated basis.

12. Includes labor, fringe benefits and other costs associated with fund raising, public relations, and maintenance of membership rolls that must be classified as direct costs in accordance with paragraphs B.3 and 4 in Attachment A of the Circular.

## Appendix D

### Sample Indirect Cost Proposal Format Multiple Allocation Base Method

This Appendix illustrates the development of indirect costs under the "Multiple Allocation Base Method" described in Section D.3 of Attachment A in Circular A-122

The Multiple Allocation Base Method should be used when an organization has several major functions which benefit from its indirect costs in varying degrees.

## Appendix D

### Sample Indirect Cost Proposal Format---Multiple Allocation Base Method

	Total Expenditures (1)	Adjustments	Adjusted Direct Costs** (A)	Reclassified Indirect Costs (4) (B)	Indirect Cost Rates (5) (B) / (A)
<i>Functional Groupings*</i>					
Public Health Ed.	\$3,000,000	\$400,000 (2)	\$2,600,000	\$510,000	19.6%
Research	650,000	50,000 (2)	600,000	99,000	16.5%
Professional Training	1,000,000	100,000 (2)	900,000	151,000	16.8%
Community Service	2,000,000	300,000 (2)	1,700,000	252,000	14.8% (6)
Fund Raising	150,000	0	150,000	38,000	25.3%
General and Admin Costs	1,200,000	150,000 (3)	0	(1,050,000)	
	<u>\$8,000,000</u>	<u>\$1,000,000</u>	<u>\$5,950,000</u>	<u>0</u>	

	Federal Training Grants (a)	Other Federal Awards (b)	Non Federal Projects	Totals
<i>Break-Down of Rate Base</i>				
Public Health Ed.	\$100,000	\$950,000	\$1,550,000	\$2,500,000
Research	0	550,000	50,000	600,000
Professional Training	650,000	0	250,000	900,000
Community Service	0	1,500,000	200,000	1,700,000
Fund Raising	0	0	150,000	150,000
	<u>\$750,000</u>	<u>\$3,000,000</u>	<u>\$2,200,000</u>	<u>\$5,950,000</u>

(a) Reimbursable indirect cost is limited to 8%

(b) Reimbursable indirect cost is based on rates contained the Rate Agreement, subject to any statutory or administrative limitations.

\* The elements of cost (e.g., salaries, materials) contained in each functional grouping should be included as a supporting schedule and be reconciled to "Total Expenditures" for each grouping (See Appendix E-1 for example).

\*\* The distribution base used in this example is total direct costs exclusive of capital expenditures and other distorting items, such as major subgrants or subcontracts. However, the organization may use direct salaries and wages or other base which results in an equitable distribution of costs.

## Sample Indirect Cost Proposal Format Multiple Allocation Base Method

1. These amounts are taken from the organization's independently audited financial statements for the year on which the proposal is based. Expenditures reflect the purpose for which costs shown under total expenditures were incurred. They may be identified from (i) the Statement of Functional Expenses, which is frequently included with the financial statements, (ii) the accounting records maintained by the organization or (iii) an analysis of the costs in relation to the operation of the organization.
2. These adjustments eliminate distortions in the distribution base in accordance with paragraph D.3.e in Attachment A of the Circular. In this illustration the following adjustments have been made:
  - *Public Health Education \$400,000*---consists of the portion of subcontract costs in excess of \$25,000 each, equipment and other capital expenditures, such as major renovations, alterations and improvements. In this example, it is presumed that the organization and cognizant Federal agency have agreed that only the first \$25,000 of each subcontract, subgrant and professional service agreement be included in the distribution base.
  - *Research \$50,000*---consists of equipment and other capital expenditures.
  - *Professional Training \$100,000*---consists of participant support costs such as stipends or subsistence allowances, travel allowances and registration fees paid to or on behalf of participants or trainees (but not employees) in connection with meetings, conferences, symposia, or training projects.
  - *Community Services \$300,000*---consists of payments (commonly referred to as "flow-thru-funds") to participating (delegated) agencies made during the year. In this illustration, the organization is not significantly involved in the administration or oversight of the participating agencies. If it were, a special rate might be necessary for that activity.
3. This adjustment eliminates capital expenditures and unallowable costs identified in Attachment B of the Circular from the indirect cost pool. Capital expenditures include the cost of land and expenditures which materially increase the value or useful life of buildings and equipment. Examples of unallowable costs include interest expense, entertainment expense, lobbying, bad debts or allowances for doubtful accounts, fines and penalties, losses on Federal or non-Federal projects, provisions for contingencies, and charitable contributions.
 

NOTE---If an organization classifies the cost of activities performed primarily as a service to members, clients or the general public as indirect costs, these costs (e.g., fund raising, public relations) must be reclassified as direct costs in accordance with paragraphs B.3 and 4 in Attachment A of the Circular.
4. The organization has established four cost groupings---occupancy, personnel administration, fringe benefits and all other---from the allowable indirect cost pool. This allocation method gives recognition to the varying degrees of benefit provided by these costs to each direct cost function. The distribution of costs is shown below:

	Allowable Indirect Costs				Total
	Occupancy	Personnel Admin.	Fringe Benefits	Other	
Functional Grouping					
Public Health Ed.	\$127,000	\$23,000	\$305,000	\$55,000	\$510,000
Research	15,000	6,000	65,000	13,000	99,000
Professional Training	29,000	12,000	91,000	19,000	151,000
Community Service	38,000	21,000	157,000	36,000	252,000
Fund Raising	22,000	1,000	12,000	3,000	38,000
	<u>\$231,000</u>	<u>\$63,000</u>	<u>\$630,000</u>	<u>\$126,000</u>	<u>\$1,050,000</u>
	(a)	(b)	(c)	(d)	(e)

- (a) Allocated to direct functional groupings based on occupied square feet. Examples of expenses included in the "occupancy" category are rental of office space, custodial services, property insurance, maintenance and repair, utilities, real estate taxes, and guard services.

Functional Grouping	Occupied square feet	Ratio	Distribution of Occupancy Cost
Public Health Ed.	21,450	55.0%	\$127,000
Research	2,535	6.5%	15,000
Professional Training	4,875	12.5%	29,000
Community Service	6,435	16.5%	38,000
Fund Raising	3,705	9.5%	22,000
	<u>39,000*</u>	<u>100.0%</u>	<u>\$231,000**</u>

\* If a significant change in the space used by the major functions during the fiscal year has occurred, equity may require that weighted square footage figures be used.

\*\* A supporting schedule (containing the elements of cost and their related amounts) reconciled to this figure should be attached.

- (b) Allocated to direct functional groupings based on number of employees. Expenses in the "personnel administration" category include labor costs, supplies, travel and employment fees incurred by the personnel office.

Functional Grouping	Number of Employees	Ratio	Distribution of Pers. Admin.
Public Health Ed.	110	36.7%	\$23,000
Research	29	9.7%	6,000
Professional Training	57	19.0%	12,000
Community Service	100	33.3%	21,000
Fund Raising	4	1.3%	1,000
	<u>300*</u>	<u>100.0%</u>	<u>\$63,000**</u>

\* If a significant change in the number of employees used by the major functions during the fiscal year has occurred, equity may require that weighted employee counts be used.

\*\* A supporting schedule (containing the elements of cost and their related amounts) reconciled to this figure should be attached.

- (c) Allocated to direct functional groupings based on salaries and wages. Expenses in the "fringe benefits" category include social security, worker's compensation, unemployment taxes, pension costs, life insurance (where the beneficiary is not the organization), medical insurance, and physical examination costs.

Functional Grouping	Salaries & Wages	Ratio	Distribution of Fringe Benefits
Public Health Ed.	\$2,347,400	48.4%	\$305,000
Research	499,550	10.3%	65,000
Professional Training	703,250	14.5%	91,000
Community Service	1,207,650	24.9%	157,000
Fund Raising	92,150	1.9%	12,000
	<u>\$4,850,000</u>	<u>100.0%</u>	<u>\$630,000</u>

NOTE--- 1. In this illustration, the organization has elected to treat fringe benefits as indirect costs. However, in most cases, organizations treat fringe benefits as direct costs so that fringe benefit costs (allocable to salaries and wages charged directly to grants and contracts) can be charged directly to individual federally sponsored awards.

2. In this illustration, the organization does not have significantly different levels of benefits provided to the various classifications of employees (e.g. executive, salaried, wage). However, if there were significant differences in the costs of benefits provided to the various classifications of employees in relation to salaries and wages in each group, separate fringe benefit rates should be established so that fringe benefit costs could be allocated in an equitable manner. Refer to Appendix C for procedures to follow if this condition exists.

- (d) Allocated to direct functional groupings based on adjusted Direct Costs. Expenses in the "all other" category include all remaining allowable indirect costs which have not been assigned to the occupancy, personnel administration and fringe benefits categories.

Functional Grouping	Adjusted Direct Cost	Ratio	Distribution of All Other
Public Health Ed.	\$2,600,000	43.7%	\$55,000
Research	600,000	10.1%	13,000
Professional Training	900,000	15.1%	19,000
Community Service	1,700,000	28.6%	36,000
Fund Raising	150,000	2.5%	3,000
	<u>\$5,950,000</u>	<u>100.0%</u>	<u>\$125,000</u>

5. Indirect costs for individual awards would be based on the indirect cost rate associated with the functional grouping of the specific award. For example, a Federal award classified as "research" would use the indirect cost rate assigned to research (i.e., 16.5%). Indirect cost rates need to be computed for only those functional groupings which contain federally sponsored awards.

NOTE---An organization may operate an activity which meets the definition of a specialized service facility (paragraph 45 in Attachment B of the Circular). In these cases, paragraph 45 requires that the cost of such a facility be treated as a direct cost and be charged to users based on actual usage of the services. In addition, this paragraph requires that the cost of a specialized service facility normally include its direct costs as well as its allocable share of indirect costs.

---Costs included in the direct cost base (as well as the indirect cost pool) shall be net of applicable credits (paragraph 5 in attachment A of the Circular).

6. The indirect cost rates developed in the sample format are applicable to those adjusted direct costs of the activities shown. To ensure equitable allocation of indirect costs, it is essential that all costs be treated in a consistent manner (e.g., all occupancy costs should be treated as indirect costs). However, occasionally a situation exists which requires a special treatment. For example, assume that the organization performs a portion of its community services functions at an off-site location and that the occupancy costs (e.g., rent) for that location have been treated as a direct project cost. An off-site rate must be developed to eliminate an inequitable allocation of indirect costs of the off-site activities. The off-site rate would be computed as follows:

Indirect Costs Assigned to Community Services	\$252,000
Less: Occupancy Costs for Community Services (Note 4.a)	(38,000)
Adjusted Indirect Costs	<u>\$214,000 (a)</u>
Distribution Base for Community Services (Appendix D)	<u>\$1,700,000 (b)</u>
Off-Site Rate for Community Services activities (a) / (b)	<u>12.6%</u>

## Appendix E

### Sample Indirect Cost Proposal Format Direct Allocation Method

This Appendix illustrates the development of indirect costs under the "Direct Allocation Method" described in Section D.4 of Attachment A in Circular A-122

The Direct Allocation Method can be used when each joint cost (depreciation, rental costs, telephone, etc.) is prorated using a basis which accurately measures the benefits provided to each award or other activity. This method is compatible with the "Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations" issued jointly by the National Health Council, Inc., the National Assembly of Voluntary Health and Social Welfare Organizations, and the United Way of America.

## Appendix E

### Sample Indirect Cost Proposal Format---Direct Allocation Method

	Total Expenditures (1)	Less Adjustments	Adjusted Direct Costs	Adjusted Indirect Costs
<i>Functional Groupings</i>				
Mental Health Programs	\$850,000	\$40,000 (2)	\$810,000	
Drug Programs	615,000	40,000 (2)	575,000	
Vocational Training	110,000	6,000 (2)	104,000	
Special Education	125,000	14,000 (2)	111,000	
Fund Raising	100,000	0	100,000	
Management and General	200,000	47,000 (3)	0	\$153,000
Totals	<u>\$2,000,000</u>	<u>\$147,000</u>	<u>\$1,700,000</u>	<u>\$153,000</u>
			(A)	(B)

#### *Break-Down of Rate Base*

Federal Training Grants	\$200,000	(a)
Other Federal Awards	555,000	(b)
Non-Federal Projects	845,000	
Fund Raising	100,000	
Total	<u>\$1,700,000</u>	

(a) Reimbursable indirect cost is limited to 8 percent.

(b) Reimbursable indirect cost is based on rate(s) contained in the Rate Agreement subject to any statutory or administrative limitations.

### COMPUTATION OF INDIRECT COST RATE

$$\frac{(B)}{(A)} = \frac{\$ 153,000}{\$1,700,000} = 9.0\%$$

The distribution base used in the example is total direct costs exclusive of capital expenditures and other distorting items, such as major subgrants or subcontracts. However, the organization may use direct salaries and wages or other base which results in an equitable distribution of costs.



## Appendix E-1

### Sample Indirect Cost Proposal Format---Direct Allocation Method

	Total Expenditures						Total	Note
	Direct Cost					Indirect Cost		
	Mental Health	Drug Programs	Vocational Training	Special Education	Fund Raising	Management & General		
<b>Elements of Cost</b>								
Salaries & Wages	\$632,815	\$447,410	\$38,000	\$77,125	\$38,300	\$61,350	\$1,295,000	
Employee Benefits	129,885	78,090	6,425	12,250	9,400	14,450	250,500	
Rental Expense	9,000	6,800	14,200	14,200	5,300	10,600	53,000	
Materials & Supplies	21,000	1,900	125	125	9,000	7,175	47,000	
Participant Support Costs	6,000	---	---	---	---	---	6,000	
Depreciation	1,000	4,000	29,000	2,850	2,225	4,925	44,000	
Printing & Reproduction	14,125	9,100	300	375	11,000	4,100	39,000	
Payments to Agencies	12,000	---	---	14,000	---	---	26,000	
Repairs & Maintenance	800	1,350	5,725	400	6,625	3,100	18,000	
Alterations & Improvements	22,000	---	6,000	---	---	---	28,000	
Telephone & Postage	475	1,050	900	175	5,100	4,300	12,000	
Subcontracts	---	65,000	8,000	2,500	---	29,000	104,500	
Other Expenses	900	300	750	1,000	13,050	61,000	77,000	
<b>Totals</b>	<b>\$850,000</b>	<b>\$615,000</b>	<b>\$110,000</b>	<b>\$125,000</b>	<b>\$100,000</b>	<b>\$200,000</b>	<b>\$2,000,000</b>	1
<b>Less Direct Cost Adjustments</b>								
Subcontracts Capital Expenditures	\$22,000	\$40,000	\$6,000				\$40,000	2
Participant Support Costs	6,000						6,000	2
Payments to Agencies	12,000			\$14,000			26,000	2
<b>Totals</b>	<b>\$40,000</b>	<b>\$40,000</b>	<b>\$6,000</b>	<b>\$14,000</b>			<b>\$100,000</b>	
<b>Less Indirect Cost Adjustments</b>								
Interest Expense						\$22,000	\$22,000	3
Entertainment						6,000	6,000	3
Bad Debts						19,000	19,000	3
<b>Totals</b>						<b>\$47,000</b>	<b>\$47,000</b>	
<b>Adjusted Costs</b>	<b>\$810,000</b>	<b>\$575,000</b>	<b>\$104,000</b>	<b>\$111,000</b>	<b>\$100,000</b>	<b>\$153,000</b>	<b>\$1,853,000</b>	

## Sample Indirect Cost Proposal Format Direct Allocation Method

1. These amounts are taken from the organization's independently audited financial statements for the year on which the proposal is based. Expenditures reflect the purpose for which costs shown under total expenditures were incurred. They may be identified from (i) the Statement of Functional Expense, which is frequently included with the financial statements, (ii) the accounting records maintained by the organization or (iii) an analysis of the costs in relation to the operation of the organization.
2. These adjustments correct distortions in the distribution base in accordance with paragraph with paragraph D.2.c. in Attachment A of the Circular. In this illustration, adjustments have been made for the following:
  - The portion of subcontract costs in excess of \$25,000 each. In this example, it is presumed that the organization and cognizant Federal agency have agreed that only the first \$25,000 of each subcontract, subgrant and professional service agreement be included in the distribution base.
  - Equipment and other capital expenditures, such as major renovations, alterations and improvements.
  - Participant support costs. This represents payments for stipends, travel allowances and registration fees paid to participants (but not employees) in connection with training projects.
  - Payments to participating agencies (flow-thru-funds). In this illustration, the organization is not significantly involved in the administration or oversight of the participating agencies. If it were, a special rate might be necessary for that activity.
3. These adjustments eliminate capital expenditures and unallowable costs identified in Attachment B of the Circular from the indirect cost pool. Capital expenditures include the cost of land and expenditures which materially increase the value or useful life of buildings and equipment. Examples of unallowable costs include interest expense, entertainment expense, lobbying, bad debts or allowances for doubtful accounts, fines and penalties, losses on Federal or non-Federal projects, provisions for contingencies and charitable contributions.

NOTE---An organization may operate an activity which meets the definition of a specialized service facility (paragraph 45 in Attachment B of the Circular). In these cases, paragraph 45 requires that the cost of such a facility be treated as a direct cost and be charged to users based on actual usage of the services. In addition, this paragraph requires that the cost of a specialized service facility normally include its direct costs as well as its allocable share of indirect costs.

---Costs included in the indirect cost pool (as well as direct costs) shall be net of applicable credits (paragraph 5 in attachment A of the Circular).

## Appendix F

### Guidelines for Establishing Fixed Rates With Carried-Forward Provisions

## Appendix F

### Guidelines for Establishing Fixed Rates With Carried-Forward Provisions

This Appendix provides guidelines on establishing fixed indirect cost rates with carry-forward provisions. The guidelines identify the situations where fixed rates should and should not be used, and provide guidance on the computation of the rates and carry-forward amounts. They also include a formula for computing the carry-forward amount and illustrations of the computation.

#### USE OF FIXED RATES

A fixed rate may be established if the organization's overall operations and the mix of Government and non-government work at the organization are relatively stable. Conversely, a fixed rate should not be established if:

- A substantial portion of the Federal awards at the organization are expected to expire before the carry-forward adjustment can be made,
- The mix of Government and non-government work at the organization is too erratic to permit an equitable carry-forward adjustment, or
- The organization's overall operations fluctuate so significantly from year to year that it is unable to make a reasonably reliable estimate of its expected costs for the fixed rate period.

#### GUIDELINES FOR ESTABLISHING FIXED RATES WITH CARRIED-FORWARD PROVISIONS

1. Fixed rates will normally be established only for periods that coincide with the nonprofit organization's fiscal year.
2. The fixed rate for a given fiscal year should be based on an accurate estimate of the costs the organization expects to incur that year so as to avoid a large carry-forward adjustment. If the organization does not expect changes in its operations that would have a significant impact on the rate, the rate may be based on the actual costs of its most recently completed year (adjusted for any carry-forward amount from an earlier year). However, if the organization does expect such changes, projected costs should be used.
3. In computing the carry-forward amount, indirect cost reimbursement is assumed to be at the fixed rate, regardless of actual reimbursement. A separate carry-forward amount must be computed for each fixed rate.
4. If multiple fixed rates are established (e.g., on-site and off-site rates) using discrete bases, reimbursement is assumed to be at the appropriate fixed rate multiplied by the corresponding base. If a fixed off-site or other special rate is computed as a derivative of the on-site rate (i.e., is computed by eliminating certain elements of the on-site rate without establishing a corresponding discrete base), reimbursement is assumed to be at the on-site rate. The fixing of rates under a given rate structure for a particular year does not preclude a later change in the structure for future years.
5. If an award or other activity was included in a given base when the fixed rate was established and is later shifted to a different base in computing the actual rate for the year (e.g., from training to research), the cognizant agency may require that the item be returned to its original status.
6. Generally, the carry-forward amount for a given fixed rate year will be used as an adjustment to the rate computation for a single future year. If the amount involved is so great that it would cause an unreasonable distortion in the rate for a single year, it may be spread over two years. However, as noted earlier, every effort should be made to avoid large carry-forward adjustments.

7. To avoid inequities, an organization may not change its costing procedures (including the classification of costs as direct or indirect) during a fixed rate period without the written approval of the cognizant agency. These changes should be made effective at the beginning of a fiscal year and the cognizant agency should be advised as far in advance of the beginning of the year as possible. Failure to obtain approval may result in cost disallowances.

### FORMULA FOR COMPUTING CARRY-FORWARD AMOUNT

The following formula should be used to compute the amount of the carry forward:

$$x = (ab) - c - d$$

x = Amount of carry-forward to be used as adjustment to rate for future year  
a = Fixed rate previously established for a given year  
b = Actual direct cost base for year covered by fixed rate  
c = Amount of carry-forward adjustment from earlier year used in computation of fixed rate  
d = Actual indirect costs for year covered by fixed rate

### Illustration #1

1. In this example, the organization established an initial fixed rate of 40% for FY 1981 and 1982. When the organization's actual costs for FY 1981 are known, it is determined that its actual rate for that year is 43% (indirect costs of \$4,300,000 and direct base costs of \$10,000,000). Using the formula, the carry-forward is computed as follows:

a. FY 1981 Fixed Rate	40%
b. Actual FY 1981 Direct Cost Base	\$10,000,000
c. Amount of Carried-forward Adjustment Used in Computing FY1981 Fixed Rate	0
d. Actual FY 1981 Indirect Costs	\$4,300,000

$$x = (ab) - c - d$$

$$x = (40\% \times \$10,000,000) - 0 - \$4,300,000$$

$$x = \$4,000,000 - \$4,300,000$$

$$x = -\$300,000$$

The minus indicates that the organization had an under-recovery for FY 1981 of \$300,000. The organization and the cognizant agency agree to use the actual costs for FY 1981 to establish the fixed rate for FY 1983 and to use the \$300,000 under-recovery as an adjustment to the FY 1983 rate computation. The FY 1983 fixed rate is computed as follows:

Actual FY 1981 Indirect Costs	\$4,300,000
Plus Carry-forward Adjustment	300,000
Total Indirect Costs	\$4,600,000 (A)
Actual FY 1981 Direct Cost Base	\$10,000,000 (B)
Fixed Rate for FY 1983 (A) / (B)	46%

2. Applying the formula to the cost information for FY 1982 and 1983 would produce the following results:

FY 1982	
a. FY 1982 Fixed Rate	40%
b. Actual FY 1982 Direct Cost Base	\$9,000,000
c. Amount of Carried-forward Adjustment Used in Computing FY1982 Fixed Rate	0
d. Actual FY 1982 Indirect Costs	\$3,690,000
 x=(ab)-c-d	
x=(40% X \$9,000,000) – 0 - \$3,690,000	
x=\$3,600,000 - \$3,690,000	
x= - \$90,000	

The \$90,000 under-recovery for FY 1982 would be used as an adjustment to the fixed rate computation for FY 1984.

FY 1983	
a. FY 1983 Fixed Rate	46%
b. Actual FY 1983 Direct Cost Base	\$9,300,000
c. Amount of Carried-forward Adjustment Used in Computing FY1983 Fixed Rate	\$300,000
d. Actual FY 1983 Indirect Costs	\$3,627,000
 x=(ab)-c-d	
x=(46% X \$9,300,000) - \$300,000 - \$3,627,000	
x=\$4,278,000-\$300,000-\$3,627,000	
x= + \$351,000	

In FY 1983, the institution over-recovered \$351,000. This amount would be used in a reduction to the indirect cost pool in computing the fixed rate for FY 1985.

## Illustration #2

This example is the same as illustration #1, except that the organization established fixed on-site rates and computed the off-site rate as a derivative of the on-site rate (i.e., computed the rate by eliminating certain elements of the on-site indirect cost pool without establishing a corresponding discrete base).

	On-Site	Off-Site
<i>FY1981 Carry-Forward Computation</i>		
a. FY 1981 Fixed Rates	40%	24%
b. Actual FY 1981 Direct Cost Base	\$10,000,000	\$10,000,000
c. Amount of Carry-forward Adjustment Used in Computing FY 1981 Fixed Rates	0	0
d. Actual FY 1981 Indirect Costs	\$4,300,000	\$2,600,000
Application of Formula x=(ab)-c-d	(40% X \$10,000,000) – 0 - \$4,300,000	(24% X \$10,000,000) – 0 - \$2,600,000
	\$4,000,000 - \$4,300,000	\$2,400,000 - \$2,600,000
Carry-forward Amount (under-recovery)	-\$300,000	-\$200,000

	On-Site	Off-Site
<i>FY1983 Fixed Rate Computation</i>		
Actual FY 1981 Indirect Costs	\$4,300,000	\$2,600,000
Plus Carry-forward Adjustment	\$300,000	\$200,000
Total Indirect Costs	\$4,600,000 (A)	\$2,800,000 (A)
Actual FY 1981 Direct Cost Base	\$10,000,000	\$10,000,000
Fixed Rates for FY 1983 (A) / (B)	46%	28%
<i>FY1983 Carry-Forward Computation*</i>		
a. FY 1983 Fixed Rates	46%	28%
b. Actual FY 1983 Direct Cost Base	\$9,300,000	\$9,300,000
c. Amount of Carry-forward Adjustment Used in Computing FY 1983 Fixed Rates	\$300,000	\$200,000
d. Actual FY 1983 Indirect Costs	\$3,627,000	\$2,046,000
Application of Formula $x = (ab) - c - d$	$(46\% \times \$9,300,000) - \$300,000 - \$3,627,000$	$(28\% \times \$9,300,000) - \$200,000 - \$2,046,000$
	\$4,278,000 - \$300,000 - \$3,627,000	\$2,604,000 - \$200,000 - \$2,046,000
Carry-forward Amount (over-recovery)	+ \$351,000	+ \$358,000

\*The carry-forward computation for FY 1982 has been omitted from the illustration in the interest of brevity.

## Appendix G

### Sample Rate Agreement



# Appendix G Rate Agreement Nonprofit Organizations

ABC Research Labs, Inc.  
300Main Street  
Washington, DC 20201

**Date:** May 19, 1981

**Filing Ref:** The Preceding Agreement was dated  
May 13, 1980

**THE RATES APPROVED IN THIS AGREEMENT ARE FOR USE ON GRANTS, CONTRACTS AND OTHER AGREEMENTS WITH THE FEDERAL GOVERNMENT, SUBJECT TO THE CONDITIONS IN SECTION II.**

## SECTION I: RATES

Type	Effective Period		Rate	Locations	Applicable to
	From	To			
INDIRECT COST RATE *					
Fixed	7/1/81	6/30/82	38.5%	On-Site	Research
Fixed	7/1/81	6/30/82	23.8%	Off-Site	Research
Fixed	7/1/81	6/30/82	60.9%	All	Drug Programs
Fixed	7/1/81	6/30/82	43.8%	All	Vocational Training
Fixed	7/1/82	6/30/83	43.7%	On-Site	Research
Fixed	7/1/82	6/30/83	26.8%	Off-Site	Research
Fixed	7/1/82	6/30/83	58.4%	On-Site	Drug Programs
Fixed	7/1/82	6/30/83	19.6%	Off-Site	Drug Programs
Fixed	7/1/82	6/30/83	46.1%	On-Site	Vocational Training
Fixed	7/1/82	6/30/83	24.2%	Off-Site	Vocational Training
Provisional	7/1/83	Until Amended	The Same Rates as for the Period Ended 6/30/83		
FRINGE BENEFITS RATES **					
Fixed	7/1/81	6/30/82	15.5%	All	All Programs
Fixed	7/1/82	6/30/83	14.3%	All	All Programs
Provisional	7/1/83	Until Amended	14.3%	All	All Programs

**Base:**

\*Total direct costs less capital expenditures (alterations, improvements, renovations, equipment-see special remarks), participant support costs, the portion of each individual subgrant or subcontract in excess of \$25,000, flow-thru funds and food/drugs given to animals under the Drug Programs.

\*\*Salaries and wages.

**TREATMENT OF FRINGE BENEFITS:** The costs of vacation, holiday, sick leave pay and other paid absences are included in the organization's fringe benefit rate and are not included in direct charges for salaries and wages. Charges for salaries and wages must exclude those paid to employees for periods when they are on vacation, holiday, sick leave, or are otherwise absent from work. Fringe benefits applicable to direct salaries and wages are treated as direct costs. They include: FICA, Retirement, Medical Insurance, Disability Insurance, Worker's Compensation, and Unemployment Compensation.

## SECTION II: GENERAL

- A. **LIMITATIONS:** The rates in this agreement are subject to any statutory or administrative limitations and apply to a given grant or contract only to the extent that funds are available. Acceptance of the rates agreed to is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted; such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate.
- B. **ACCOUNTING CHANGES:** If a fixed or predetermined rate is in this agreement, it is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs which affect the amount of reimbursement resulting from the use of this Agreement require the prior approval of the authorize representative of the cognizant agency. Such changes include, but are not limited to changes in the charging of a particular type of costs from indirect to direct. Failure to obtain approval may result in cost disallowances.
- C. **FIXED RATES:** If a fixed rate is in this Agreement, it is based upon an estimate of the costs for the period covered by the rate. When the actual costs for this period are determined, an adjustment will be made to a rate of a future year(s) to compensate for the difference between the cost used to establish the fixed rate and the actual costs.
- D. **USE BY OTHER FEDERAL AGENCIES:** The rates in this Agreement were approved in accordance with the authority in the Office of Management and Budget Circular A-122, and should be applied to grants, contracts and other agreements covered by this Circular, subject to any limitations in A above. The organization may provide copies of this document to other Federal Agencies to give them early notification of this Agreement.

## E. SPECIAL REMARKS:

1. All activities conducted in facilities not owned by the organization are classified as off-site.
2. Office rental costs for off-site facilities are directly charged to the benefiting activity.
3. The cost of long distance phone calls is specifically assigned to the benefiting project or activity. The cost of local calls and the monthly service charge is classified as indirect costs.
4. Supplies with a unit cost of less than \$10 are classified as indirect costs. Supplies with a unit cost of \$10 or more are charged to the benefiting project or activity.
5. The organization's policy provides that an item of nonexpendable tangible personal property having a useful life of more than two years and an acquisition cost of \$500 or more is classified as equipment. Costs of approved equipment purchases are directly charged to benefiting projects, but are excluded from the direct cost base.
6. Flow-thru funds are grants and organizational funds transferred to participating (delegated) agencies.

### BY THE ORGANIZATION

ABC Research Labs, Inc.  
(organization)

\_\_\_\_\_  
(Signature)

Henry G. Waters  
(Name)

Vice President for Finance & Business  
(Title)

May 27, 1981  
(Date)

### BY THE COGNIZANT AGENCY ON BEHALF OF THE FEDERAL GOVERNMENT

Department of Health and Human Services  
(organization)

\_\_\_\_\_  
(Signature)

Gary M. Sullivan  
(Name)

Director, Division of Cost Allocation  
(Title)

May 19, 1981  
(Date)

HHS Representative: John A. Brown  
Telephone: (215) 596-6423